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FISCAL IMPACT STATEMENT

LS 7343

BILL NUMBER: HB 1374

NOTE PREPARED: Jan 11, 2013

BILL AMENDED:

SUBJECT: Customer-Generator Facilities.

FIRST AUTHOR: Rep. Koch

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that a customer-generator facility that owns only definite situs property that is located in one taxing district is not subject to assessment as a public utility and shall be locally assessed.

It requires the Indiana Utility Regulatory Commission (IURC) to amend the rules governing interconnection to allocate: (1) interconnection costs to a customer-generator facility; and (2) distribution system improvement costs related to interconnection to an investor-owned utility.

Effective Date: Upon passage; July 1, 2013.

Explanation of State Expenditures: *Property Tax Assessments:* This provision could slightly reduce the administrative burden for the Department of Local Government Finance (DLGF). Owners of customer-generator facilities would no longer file utility tax returns with the DLGF.

Interconnection Rules: The bill requires the IURC to evaluate the current interconnection rules by July 1, 2013. It provides that the rules that are not consistent with the provisions in the bill are void. It requires the IURC to notify the Indiana Administrative Code and Indiana Register by July 15, 2013 of the rules that are void. It requires the IURC to adopt new emergency rules to amend the existing interconnection rules as required by the bill no later than September 1, 2013. It requires that no later than November 1, 2014, the IURC must report to the Regulatory Flexibility Committee on final adoption of the emergency rules initially adopted under the bill.

IURC: This bill could increase administrative expenditures for the IURC. Any increase in administrative costs to the IURC will be offset by public utility fees. The IURC and the Office of the Utility Consumer Counselor (OUCC) are funded by public utilities. Each public utility must pay equal to 0.15% of its gross intrastate operating revenues for the preceding calendar year. The actual fee is based on the budgets of IURC and OUCC. At the end of the fiscal year, if the total public utility fees in the Public Utility Fund plus the unspent balance of the Fund exceeds the total appropriations for the IURC and the OUCC (plus a \$250,000 contingency fund), then the IURC must compute each utility's share of the excess. This share is then deducted from any subsequent payment of the utility's public utility fees.

Background: Indiana Administrative Code (IAC) 170 4-4.3 deals with the customer-generator interconnection standards. Under IAC 170 4-4.3, "interconnection" or "interconnected" means the physical, parallel connection of a customer-generator facility with a distribution facility of an investor-owned electric utility.

Interconnection cost broadly includes the reasonable cost of connection, switching, metering, transmission, distribution, safety provisions, and administrative costs incurred by the electric utility directly related to the installation and maintenance of a physical facility necessary to permit interconnected operations with a qualifying facility, to the extent the costs are: (1) in excess of the corresponding costs which the electric utility would have incurred if it had not engaged in interconnected operations but instead generated an equivalent amount of electricity itself or purchased an equivalent amount of electricity from other sources; and (2) not otherwise recognized in rates for purchase of energy, or capacity and energy, by the electric utility.

An electrical distribution system generally originates at a distribution substation and includes the infrastructure equipments including lines, poles, transformers and other equipment needed to deliver electric power to the customer at the required voltages.

The bill requires the IURC to amend the interconnection rules as codified in IAC 170 4-4.3. It requires that the new rules must do the following:

- (1) Allocate costs associated with the interconnection and operation of a customer-generator facility to the customer-generator facility;**
- (2) Allocate costs incurred by an investor-owned utility for distribution system improvements related to interconnection to the investor-owned utility.**

Under current rules, most of the interconnection costs are paid by the customer-generator facility. This bill could shift some of the interconnection costs to the investor owned public utilities. This would not have any impact on state revenues.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Property Tax Assessments: This provision would most likely have only minor impact to the assessed value of property owned by customer-generator facilities. Depending on the specific property's cost, federal depreciation life, and age, this bill could cause a slight increase, a slight decrease, or no change in any given year for any given taxpayer.

Under this bill, property owned by a customer-generator facility that owns only definite situs property that is located in one taxing district would be assessed as business personal property rather than as utility property.

Under current law, utility-owned personal property is reported on the UD-45 tax return and filed with the DLGF. The DLGF distributes the AV by taxing district. Utility assessed value is based on federal depreciated value, with an assessment floor equal to 30% of total cost.

On the other hand, business personal property is valued according to a depreciation schedule as specified in the assessment rule. Most taxpayers list the cost of depreciable property in one of 4 “pools”, depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The asset cost is multiplied by the appropriate “percent good” factor in the depreciation schedule to produce the total true tax value (TTV) of the assets. The TTV of all of a taxpayer’s depreciable property located in the same taxing district must be at least 30% of the total cost of the property (30% floor).

There could be a difference in assessments under the two methods. Either method could produce a higher or lower assessment than the other in any given year for any taxpayer. Unless additional investment is made as the property ages, the assessment will drop to the 30% floor under both methods and would be the same at that time.

State Agencies Affected: Indiana Utility Regulatory Commission, Regulatory Flexibility Commission; Department of Local Government Finance.

Local Agencies Affected: Local assessors.

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